



**KAPITALBANK**

JOINT-STOCK COMMERCIAL BANK "KAPITALBANK"

Consolidated financial statements for the year ended on December 31, 2017  
and the conclusion of the independent auditors

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## **Conclusion of the independent auditors**

### **To shareholders and management of “Kapitalbank” JSCB**

#### *Opinion*

We have audited the consolidated financial statements of Joint-stock commercial bank “Kapitalbank” (hereinafter referred as the “Bank”), as well as its subsidiaries (hereinafter referred to collectively as the “Group”) consisting of consolidated statements on the financial position as of December 31, 2017 and consolidated Profit and Loss Account and other consolidated income, consolidated statement on cash flow for the year ended on the specified date as well as notes to the consolidated financial reporting including a brief overview of the basic provisions of the accounting policy.

In our opinion, accompanying consolidated financial statements attached adequately illustrate at all the consolidated financial position of the Group as of December 31, 2017, as well as its consolidated financial results and consolidated cash flow for the year ended on the specified date in compliance with the International Financial Reporting Standards (IFRS).

#### *Grounds for expressing the opinion*

We have carried out the audit in compliance with International Standards on Auditing (ISA). In accordance with these standards our responsibilities are specified below in the section “Auditor’s Responsibility for the Audit of the Consolidated Financial Statements” of our conclusion. We are independent with regard to the Group in compliance with the Code of Ethics of Professional Accountants of the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements applicable to our audit of the consolidated financial statements in the Republic of Uzbekistan, and we have executed other ethical obligations in compliance with the IESBA Code. We believe that the audit evidence received is adequate and satisfactory to serve as a basis for expressing our opinion.

*Key audit issues*

The key audit issues are those which, according to our professional assumption, have become the most essential for our audit of the financial statements for the current period. These issues have been within the framework of our audit of the financial statements as a whole and in formulating our opinion on these statements, and we do not express any separate opinion on these issues.

<b>Key audit issue</b>	<b>Which audit procedures have been implemented regarding the key audit issue</b>
<p>We have paid a particular attention to this issue due to the significance of loans and advance payments to customers, as well as due to the fact that the calculation of the relevant reserves for possible losses implies the use of significant assumptions and estimates.</p> <p>Reserve represents the best assessment of losses incurred on loans and advance payments to customers on the reporting date made by the management.</p> <p>Certain reserves are calculated on the individual basis by significant loans and advance payments. The calculation of such reserves requires the application of assumption enabling to determine when an impairment event occurred, and then estimate the expected future cash flows related to the corresponding loan.</p> <p>Collective reserves are created on the portfolio basis for all other advance payments of a similar nature. Such reserves are calculated by applying statistical models enabling to evaluate the impact of lending terms on the loan portfolio. The development and input data of these models depend on the assumptions of the management.</p> <p>Detailed information on reserves for possible losses and advance payments to customers is provided in Note 3 “Principles for submitting accounts”, Note 4 “Significant assessments and professional assumption” and in Note 8 “Loans to customers” included in the consolidated financial statements.</p> <p>We have paid a particular attention to this issue with reference to the implementation of</p>	<p>We have assessed the basic technique and relevant models used to calculate the reserve for its compliance with the IFRS requirements.</p> <p>We have accomplished the assessment and testing (randomly) of the creation and operational efficiency of control facilities over the impairment data, over the timely identification of impaired balances, and the calculation of the reserves for possible losses.</p> <p>We have tested loans and advance payments (randomly) which have not been identified by the management as potentially impaired, and have developed our own assumption regarding the point whether it has been implemented in a proper way.</p> <p>We have tested the impairments (randomly) on which individual reserve has been calculated.</p> <p>We have verified whether an impairment event has been revealed by the due date, have calculated discounted cash flows, have checked sources of future cash flows used by the management, have critically evaluated the assumptions and compared estimated values with external evidence, if available.</p> <p>We have tested (randomly) the performance of models for collective reserves, as well as the data and assumptions used. Our work involved comparison of the basic suppositions based on our knowledge, other practices and actual experience, as well as testing models with the help of their recalculation and various analytical procedures.</p> <p>We have divided assets and liabilities of the Group by types of currencies.</p> <p>We have tested (randomly) the accrual of</p>

<p>currency reform in compliance with the Decree of the President of the Republic of Uzbekistan PD №5177 “On Priority measures to liberalize currency policy” as of September 2, 2017. Generally the national economy adopted the devaluation of the national currency against foreign currencies. As a result 1 USD cost 8100 UZS. The measures aimed at freely converting the national currency into foreign exchange have been undertaken, and restrictive measures to use foreign exchange have been simplified.</p> <p>In Note 20 “Net income excluding expenses on transactions with foreign exchange”, in the consolidated financial statements.</p>	<p>income and expenses determined in the foreign exchange and application of the exchange rate at the moment of reflection in respect to the point whether it has been accomplished in a proper way.</p> <p>Revenues and expenses are represented in UZS at the moment of accrual.</p> <p>Prior to the adoption of the devaluation, 1 USD used to cost 4 210,35 UZS.</p> <p>The difference of the changes in the exchange rates made a significant impact on the financial result.</p>
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*Other information*

The audit of the consolidated financial statements of the Group for the year ended on December 31, 2016 was carried out by another auditor who expressed an unmodified opinion on these statements as of April 28, 2017.

*Responsibility of the management and officials responsible for the corporate governance or consolidated financial statements*

The management bears responsibility for the preparation and faithful representation of these consolidated financial statements in compliance with the IFRS and the internal control system which is considered by the management to be necessary for the preparation of consolidated financial statements that do not contain material misstatements due to the frauds or errors.

When preparing the consolidated financial statements, management is responsible for assessing the capability of the Group to continue its uninterrupted performance, for disclosing the information referred to the continuous performance if necessary, and for compiling the statements on the basis of the supposition of the continuous performance except for cases when the management intends to liquidate the Group, cease its activities or when it has no real alternative to such actions.

The management and officials responsible for the corporate governance, bear responsibility for the supervision over the preparation of the financial statements of the Group.

*Responsibility of the auditor for the audit of the consolidated financial statements*

Our aim is to acquire a reasonable assurance that the financial statements are free from material misstatement due to the frauds or errors, and to issue an auditor’s conclusion containing our opinion. A reasonable assurance represents a high degree of certainty, but does not guarantee that an audit carried out in compliance with the International Standards on Auditing always detects material misstatements, if any. These misstatements can be the result of the frauds or errors and are considered to be significant if it can be reasonably assumed that, individually or

collectively, they can affect the economic decisions of users made on the basis of these financial statements.

Within the framework of the audit carried out in compliance with the International Standards on Auditing, we apply professional assumption and maintain professional skepticism throughout the audit. In addition, we accomplish the following activities:

- reveal and assess the risks of material misstatement of financial statements due to the frauds or errors; develop and perform audit procedures in response to these risks; obtain audit evidence that is adequate and appropriately formulated to constitute the basis for expressing our opinion. The risk of non-detection of material misstatement as a result of the fraud is higher than the risk of non-detection of material misstatement as a result of an error, since frauds may include collusion, forgery, intentional omission, misrepresentation of information or actions by evasion of the internal control system;
- comprehend the internal control system which is essential to the audit with the aim of developing audit procedures that correspond the circumstances, but not with the aim of expressing opinion on the efficiency of the internal control system of the Group;
- assess a relevant nature of the applied accounting policy and soundness of the accounting estimations and an appropriate disclosure of the information prepared by the management;
- make conclusions on the appropriateness of the supposition of the management on the continuous performance and on the audit evidence obtained – the conclusion on the matter if there is a considerable uncertainty with regard to the circumstances or terms which may cause occurrence of significant doubts on the capability of the Group to implement its continuous performance. If we make a conclusion on the considerable uncertainty, in our auditor's conclusion we should draw the attention to the existing disclosure of the information in the financial statements, or if such a disclosure is considered to be improper, we should modify our opinion. Our conclusions are based on the audit evidence acquired before the date of our auditor's conclusion. However, future events or terms may result in the fact that the Group will lose its ability to implement its continuous performance;

- estimate presentation of the financial statements in general, their structure and content including information disclosure, as well as the fact if financial statements represent transactions and events which constitute their basis in the manner to ensure their reliable presentation;
- obtain appropriate audit evidence referred to the financial information of companies or the activity within the Group to express an opinion on the consolidated financial statements. We are responsible for the management, control and carrying out the audit of the Group. We are absolutely responsible for our auditor's opinion.

In terms of information we cooperate with the Management and officials responsible for the corporate governance bringing to their notice, but not limited to, the information on the planned volume and terms of the audit, as well as significant remarks on the audit results including major deficiencies in the internal control system which we detect in the auditing process.

In addition, we provide the Management and officials responsible the for corporate governance with the statement confirming that we have observed all relevant ethical requirements in respect to the independence and inform these officials about all relations and other issues which can reasonably be considered as affecting the independence of the auditor, and, if necessary, about appropriate precautionary measures.

Among those issues that we have conveyed to the Management and officials responsible for the corporate governance, we identify the issues that have been the most essential for the audit of the financial statements for the current period and, consequently, are considered to be the key audit issues. We have described these issues in our auditor's report, except for cases, where public disclosure of the information on these issues is prohibited by law or statutory acts, or, in extremely rare cases we make a conclusion that the information on any issue should not be communicated in our conclusion, since it can be reasonably assumed that the negative consequences of communicating such information will exceed publicly significant benefits of the communication.

**Shoodil Nosirov,**  
**Project partner**

*signature*

Qualification certificate of the auditor to carry out audits at banks №13/1  
as of July 24, 2017, issued by the Central Bank of the Republic of Uzbekistan.

**“Grant Thornton” JSC LLC**  
**April 30, 2018**  
**Tashkent city, the Republic of Uzbekistan**

*Official round stamp*  
*Republic of Uzbekistan, Tashkent city,*  
*Joint-stock limited liability company Grant Thornton*

**“Kapitalbank” JSCB**

**Consolidated financial statements for the year ended on December 31, 2017 (in thousand UZS)**

**CONSOLIDATED STATEMENT ON FINANCIAL POSITION**

	<b>Note</b>	<b>December 31, 2017</b>	<b>December 31, 2016</b>
<i>Assets</i>			
Cash and cash equivalents	6	930 835 594	474 734 942
Funds in credit institutions	7	204 261 814	453 596 028
Loans extended to customers	8, 25	1 612 868 781	1 318 017 449
Assets designed for sale	9	4 203 509	9 155 605
Investments available for sale		2 696 753	4 088 656
Investments in associated companies		---	3 323 577
Fixed assets	10	458 203 449	151 780 050
Intangible assets	10	1 944 857	1 571 904
Deferred tax assets	22	8 899 572	1 487 240
Other assets	11	445 015 893	229 970 557
<b>Assets, total</b>		<b>3 668 930 222</b>	<b>2 647 726 008</b>
<i>Liabilities</i>			
Funds of credit organizations	12	258 880 240	137 917 814
Customer deposits	13, 25	3 051 461 993	2 222 674 899
Debt securities issued	14	2 070 575	5 345 781
Liabilities on financial leasing		---	19 097 055
Other borrowed funds	16	15 363 435	15 363 435
Other liabilities	15	10 413 436	11 277 993
<b>Liabilities, total</b>		<b>3 338 189 679</b>	<b>2 411 676 977</b>
<i>Equity</i>			
Capital stock	16	80 331 797	80 331 797
Additional capital	16	350 000	350 000
Revaluation Reserve of fixed assets	10, 17	112 795 731	37 400 020
Retained earnings		137 263 015	117 967 214
<b>Equity, total</b>		<b>330 740 543</b>	<b>236 049 031</b>
<b>Liabilities and equity, total</b>		<b>3 668 930 222</b>	<b>2 647 726 008</b>

Approved and signed on behalf of the Group management:

*signature*

Olimov K.A.  
Chairman of the Executive Board of the Bank  
April 30, 2018

*signature*

Skuybida Ye.Ye.  
Chief accountant of the Bank

*Official round stamp*

*Republic of Uzbekistan, Tashkent city*

*Joint-stock commercial bank “Kapitalbank”*

Notes on pages from 11 to 69 are a constituent part of these consolidated financial statements.

**“Kapitalbank” JSCB**

**Consolidated financial statements for the year ended on December 31, 2017 (in thousand UZS)**

**CONSOLIDATED PROFIT AND LOSS ACCOUNT  
AND OTHER CONSOLIDATED INCOME**

	Note	For the year ended on December 31, 2017	For the year ended on December 31, 2016
Interest income	18, 25	249 272 340	172 267 083
Interest expenses	18, 25	(104 070 470)	(83 417 415)
<b>Net interest income</b>		<b>145 201 870</b>	<b>88 849 668</b>
Creating reserves on impairment of assets subject to interest accrual	8	(25 649 786)	(11 176 835)
<b>Net interest income after creating reserves on impairment of assets subject to interest accrual</b>		<b>119 552 084</b>	<b>77 672 833</b>
Commission income	19, 25	164 641 613	118 742 716
Commission expenses	19, 25	(20 261 657)	(20 044 039)
Net income after deduction of expenses on foreign exchange transactions	20	(52 313 546)	16 265 338
Reserves on impairment of other assets	11	(7 488 780)	---
Loss from initial loan recognition		(9 432 133)	---
Other income from allowance recovery		---	958 839
Other income		18 699 972	9 030 392
Other expenses		(9 047)	(10 570)
<b>Non-interest income (expenses)</b>		<b>93 836 422</b>	<b>124 942 676</b>
Expenses on personnel	21, 25	(72 784 550)	(59 925 912)
Amortization (depreciation)	10	(18 100 963)	(14 994 478)
Other operating expenses	21	(84 375 597)	(65 096 636)
<b>Non-interest expenses</b>		<b>(175 261 110)</b>	<b>(140 017 026)</b>
<b>Profit before expenses on the profit tax</b>		<b>38 127 396</b>	<b>62 598 483</b>
Expenses on the profit tax	22	(18 831 595)	(24 007 294)
<b>Net profit for a period</b>		<b>19 295 801</b>	<b>38 591 189</b>
<i>Other consolidated income</i>			
Revaluation of buildings	17	75 395 711	14 156 745
Profit tax referred to the components of the consolidated income		---	---
<b>Other consolidated income after tax</b>		<b>75 395 711</b>	<b>14 156 745</b>
<b>Consolidated income for the period, total</b>		<b>94 691 512</b>	<b>52 747 934</b>

Approved and signed on behalf of the Group management:

*signature*

Olimov K.A.  
Chairman of the Executive Board of the Bank

*signature*

Skuybida Ye.Ye.  
Chief accountant of the Bank

April 30, 2018

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**“Kapitalbank” JSCB**

**Consolidated financial statements for the year ended on December 31, 2017 (in thousand UZS)**

**CONSOLIDATED STATEMENT ON THE CHANGE IN EQUITY**

	<b>Equity</b>	<b>Additional capital</b>	<b>Revaluation Reserve of fixed assets</b>	<b>Retained earnings</b>	<b>Equity, total</b>
<b>Balance as of January 1, 2016</b>	<b>80 331 797</b>	<b>350 000</b>	<b>50 782 450</b>	<b>51 641 287</b>	<b>183 105 534</b>
Net profit for the period	---	---	---	38 591 190	38 591 190
Other consolidate income	---	---	14 156 745	---	14 156 745
Transfer of the buildings' amortization	---	---	(2 760 070 )	2 760 070	---
Transfer of the Reserve Fund of fixed assets	---	---	(24 779 105)	24 779 105	---
Disposal of subsidiaries	---	---	---	195 562	195 562
<b>Balance as of January 31, 2017</b>	<b>80 331 797</b>	<b>350 000</b>	<b>37 400 020</b>	<b>117 967 214</b>	<b>236 049 031</b>
Net profit for the period	---	---	---	19 295 801	19 295 801
Other consolidated income	---	---	75 395 711	---	75 395 711
<b>Balance as for December 31, 2017</b>	<b>80 331 797</b>	<b>350 000</b>	<b>112 795 731</b>	<b>137 263 015</b>	<b>330 740 543</b>

Approved and signed on behalf of the Group management:

*signature*

Olimov K.A.  
Chairman of the Executive Board of the Bank

*signature*

Skuybida Ye.Ye.  
Chief accountant of the Bank

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*Joint-stock commercial bank “Kapitalbank”*

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**Kapitalbank” JSCB**

**Consolidated financial statements for the year ended on December 31, 2017 (in thousand UZS)**

**CONSOLIDATED STATEMENT ON CASH FLOWS**

	<b>For the year ended on December 31, 2017</b>	<b>For the year ended on December 31, 2016</b>
<i>Cash flows from operating activities</i>		
Profit before tax	38 127 396	62 598 483
<i>Corrections on:</i>		
Reserves on impairment of loans	25 649 786	11 176 835
Other (income)/expenses from impairment and reserves creation	16 920 913	(964 884)
Amortization	18 100 963	14 994 479
Profit from the sale of fixed assets	(574 344)	(599 857)
Income/(loss) from the revaluation of the currency items on foreign exchange transactions	(131 602 463)	46 099 347
Unrealized gain from SWOP operations	(283 491 577)	(37 188 309)
Other borrowed funds	---	943 385
Other accruals	2 712 206	9 546 586
<b>Cash flow received from the operating activity before changes in operating assets and liabilities</b>	<b>(314 157 120)</b>	<b>106 606 065</b>
<i>Net (increase)/decrease of operating assets</i>		
Funds in credit institutions	249 334 214	(123 027 601)
Loans extended to customers	(294 851 332)	(522 896 547)
Other assets	(215 045 336)	(35 049 865)
<i>Net (increase)/decrease of operating liabilities</i>		
Funds in credit institutions	120 962 426	29 914 003
Customer deposits	828 787 094	591 675 029
Other liabilities	(864 557)	66 336
Cash inflow from the operating activity before tax	374 165 389	47 287 420
Profit tax paid	(28 968 439)	(27 783 564)
<b>Net cash flows from operating activities</b>	<b>345 196 950</b>	<b>19 503 856</b>
<i>Cash flows from investment activities</i>		
Purchase of assets available for sale	(4 952 096)	(9 155 605)
Cash proceeds from disposal of the subsidiary by deducting disposed cash	---	52 911 678
Purchase of fixed assets	(250 969 090)	(42 606 697)
Purchase of intangible assets	(997 157)	(1 046 856)
Cash proceeds from the sale of fixed assets	2 677 476	49 017 463
<b>Net cash flows from the investment activity</b>	<b>(254 240 667)</b>	<b>49 119 983</b>
<i>Cash flow from financial activities</i>		
Cash proceeds before the issuance of preference shares	---	14 420 050
Redemption of debt securities	(3 275 206)	(2 971 479)
<b>Net cash flow from financial activities</b>	<b>(3 275 206)</b>	<b>11 448 571</b>
Impact of changes of exchange rates on the cash and cash equivalents	368 419 775	34 531 173
<b>Net change of cash and cash equivalents</b>	<b>456 100 652</b>	<b>114 603 583</b>
Cash and cash equivalents as of the beginning of the reported period	474 734 942	630 131 359
Cash and cash equivalents as of the end of the reported period	<b>930 835 594</b>	<b>474 743 942</b>

Approved and signed on behalf of the Group management:

*signature*  
Olimov K.A.  
Chairman of the Executive Board of the Bank

*signature*  
Skuybida Ye.Ye.  
Chief accountant of the Bank

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